

**Shepherd Tri-Township Fire Department**

**Financial Statements**

**November 30, 2006**



## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shepherd Tri-Township Fire Department	County Isabella
Fiscal Year End 11-30-2006	Opinion Date 1-31-2007	Date Audit Report Submitted to State 9-17-2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

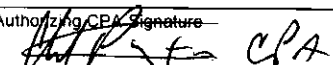
YES  
O

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	Nothing Else Required	
Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE & COMPANY, PC, CPA'S		Telephone Number 989-463-6123	
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
			Zip 48801
Authorizing CPA Signature 		Printed Name CHAD PAYTON, CPA	
		License Number 21946	

Shepherd Tri-Township Fire Department  
Financial Statements  
November 30, 2006

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## **Independent Auditor's Report**

Shepherd Tri-Township Fire Department  
Isabella County, Michigan

We have audited the accompanying financial statements of each major fund of the Shepherd Tri-Township Fire Department (the Department) as of and for the year ended November 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Department prepared these financial statements using the minimum accounting practices prescribed by the Michigan Department of Treasury to demonstrate compliance with the State's accounting and budget laws, which practices differ from accounting principles generally accepted in the United States of America. The differences in presentation allowed by the State and that of accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the Department as of November 30, 2006.

However, in our opinion, the financial statements presented do present fairly, in all material respects, the minimum presentation allowed by the State of Michigan for each of its major funds for the Department as of and for the year ended November 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2007 on our consideration of the Department's internal control structure over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Roslund, Prestage & Co. P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 31, 2007

Shepherd Tri-Township Fire Department  
Balance Sheet  
Governmental Funds  
November 30, 2006 and 2005

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	General Fund	
	2006	2005
<u>Assets</u>		
Cash and cash equivalents	\$155,927	\$139,099
Investments	23,262	20,648
Accounts receivable	524	-
Prepaid expenses	-	1,521
Total assets	<u>\$179,713</u>	<u>\$161,268</u>
<u>Fund Balances</u>		
Unreserved	<u>\$179,713</u>	<u>\$161,268</u>
Total fund balances	<u>\$179,713</u>	<u>\$161,268</u>

See accompanying notes to financial statements

Shepherd Tri-Township Fire Department  
Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds  
Years Ended November 30, 2006 and 2005

	General Fund	
	2006	2005
<b>Revenues</b>		
Charges for services	\$79,267	\$81,153
Contribution from local units	143,785	146,415
Interest	5,673	3,140
Gain on investment	2,613	1,260
Other revenues	1,403	1,355
<b>Total revenues</b>	<b>232,741</b>	<b>233,323</b>
<b>Expenditures</b>		
Public Safety		
Building and grounds	4,036	1,884
Computer software support	1,000	1,000
Gas and fuel	5,894	5,464
Insurance	34,549	32,228
Miscellaneous	1,535	1,525
Professional services	1,400	3,614
Repairs and maintenance	25,089	19,635
Salaries and payroll taxes	99,820	102,198
Supplies	11,900	10,690
Small equipment	11,518	13,839
Training	5,436	6,805
Uniforms	1,959	9,332
Utilities	10,160	8,241
<b>Total expenditures</b>	<b>214,296</b>	<b>216,455</b>
Excess of revenues over (under) expenditures	18,445	16,868
Fund balance, beginning of year	161,268	144,400
Fund balance, end of year	<u>\$179,713</u>	<u>\$161,268</u>

See accompanying notes to financial statements

**Shepherd Tri-Township Fire Department  
Notes To The Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of Shepherd Tri-Township Fire Department (the Department) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units, except as described below. The following is a summary of the significant accounting policies used by the Department.

**Reporting Entity**

The Department is governed by a Board consisting of eight members and provides services to four local units of government. The accompanying financial statements present only the primary government as the Department does not have any component units.

**Joint Venture**

The Department is a result of a joint venture entered into by the Village of Shepherd, Chippewa Township, Lincoln Township, and Coe Township and provides fire and rescue services to residents of these and other local areas. The participants provide annual funding for its operations.

The local units' interest in Shepherd Tri-Township Fire Department is determined by the average of the ratios of taxable values and of population figures on each local unit.

For the Shepherd Tri-Township Fire Department year ended November 30, 2006, Village of Shepherd, Chippewa Township, Lincoln Township and Coe Township's interests in Shepherd Tri-Township Fire Department, based on the formula discussed above, is 14%, 45%, 22%, and 19%, respectively.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments sets forth the required financial reporting formats for local governments in accordance with generally accepted accounting principles. The Local Audit and Finance Division of the Michigan Department of Treasury is responsible for overseeing local unit compliance. Per the Michigan Committee on Governmental Accounting and Auditing Statement No. 7, issued by the State Treasurer, omission of the Management's Discussion and Analysis, the Government-Wide Statements and/or Infrastructure Reporting will not result in any sanctions or remediation. As such, the Department has elected to omit these sections of the GASB 34 reporting format.



Shepherd Tri-Township Fire Department  
Notes To The Financial Statements

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Department reports the following major governmental funds:

The General Fund is the Department's primary operating fund. It accounts for all financial resources of the Department, except those required to be accounted for in another fund.

**Budgets and Budgetary Accounting**

An annual budget is adopted by the Department for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the line item level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

The Department does not maintain a formalized encumbrance accounting system.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments

The Department's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit. Investments held by the Department were donated in a prior year.

Inventories and Prepaid Expenditures

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental fund type. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

Shepherd Tri-Township Fire Department  
Notes To The Financial Statements

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year-end, the Department did not incur expenditures in excess of the amounts appropriated as shown on page 9 of this report.

Shepherd Tri-Township Fire Department  
Notes To The Financial Statements

**NOTE 3 – DETAIL NOTES**

**Cash and Cash Equivalents**

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Department's deposits might not be recovered. At November 30, 2006, the carrying amount of the Department's deposits was \$155,927, and the bank balance was \$193,770. Of the bank balance, \$100,000 was covered by federal depository insurance and \$93,770 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Investments**

*Interest Rate Risk.* State law limits the maturity of investments in commercial paper to not more than 270 days. The Department does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits the type of investments for which the Department may invest its available reserves. The Department has no investment policy that would further limit its investment choices. As of November 30, 2006, the Department's investment in the RVS Balanced Fund, Class A mutual fund, which was donated to the Department in a prior year, was rated two stars by Morningstar Ratings.

*Concentration of Credit Risk.* The Department places no limits on the amount they may invest in any one issuer.

The Department's investments held at November 30, 2006 are as follows:

Investment	Carrying Value	Market Value
RVS Balanced Fund, Class A	\$23,262	\$23,262

Shepherd Tri-Township Fire Department  
Notes To The Financial Statements

**Capital Assets**

Capital assets of the Department for the current year are as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Building	\$89,390	-	-	\$89,390
Equipment	7,500	-	-	7,500
Inland Marine	145,800	-	-	145,800
Technology	4,500	-	-	4,500
Vehicles	1,543,000	-	-	1,543,000
Sub-totals	\$1,790,190	-	-	\$1,790,190

This listing of capital assets was prepared by the Mid-America Appraisal Company for the Department and was not tested for accuracy or completeness by the auditors.

**Contributions from Local Units**

The main source of revenue for the Department consists of contributions from local units. This source of revenue is derived from funds contributed by the Village of Shepherd, Chippewa Township, Lincoln Township and Coe Township, the members of the joint venture, and is intended to cover overhead and to fund future equipment replacements. Contributions from local units for the year totaled \$143,785.

**Charges for Services**

Another source of revenue for the Department is derived from charges for services. This revenue source consists of fees charged per incident, where each township is charged a predetermined fee for fire and rescue runs in order to cover the expenses of that run. Charges for services for the year totaled \$79,267.

**NOTE 4 - OTHER INFORMATION**

**Risk Management**

The Department is a member of a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. The purpose of the association is to administer a risk management fund which protects members with loss protection for general and auto liability, motor vehicle physical damage and property. Contributions are applied to the procurement reinsurance, risk management, underwriting, payment of claims, establishments of loss reserves and other related expenses.

Shepherd Tri-Township Fire Department  
Notes To The Financial Statements

A member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions. The Department's coverage limits are between \$2,000,000 and \$4,000,000 for liability, and between \$10,000 and \$2,000,000 for property, bond, automobile, inland marine and crime.

**Related Party Transactions**

The Department has entered into various transactions with Grim Printing. A member of the Board is the owner of this company. The total amounts paid by the Department to Grim Printing for operating supplies were immaterial in total for the year ended November 30, 2006.

Shepherd Tri-Township Fire Department  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended November 30, 2006

	Budget Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Charges for services	\$82,000	\$82,000	\$79,267	(\$2,733)
Contributions from local units	143,785	143,785	143,785	-
Interest	4,000	5,700	5,673	(27)
Gain on investment	2,200	2,200	2,613	413
Other revenues	1,100	1,309	1,403	94
<b>Total revenues</b>	<b>233,085</b>	<b>234,994</b>	<b>232,741</b>	<b>(2,253)</b>
<b>Expenditures</b>				
Public Safety				
Building and grounds	6,500	7,000	4,036	2,964
Computer software support	1,000	1,000	1,000	-
Gas and fuel	5,500	5,900	5,894	6
Insurance	35,550	35,650	34,549	1,101
Miscellaneous	7,010	2,250	1,535	715
Professional services	2,400	2,400	1,400	1,000
Repair and maintenance	20,770	27,270	25,089	2,181
Salaries and payroll taxes	103,400	103,400	99,820	3,580
Supplies	14,500	14,500	11,900	2,600
Small equipment	11,000	12,570	11,518	1,052
Training	7,250	7,250	5,436	1,814
Uniforms	9,500	9,500	1,959	7,541
Utilities	8,705	11,306	10,160	1,146
	<b>233,085</b>	<b>239,996</b>	<b>214,296</b>	<b>25,700</b>
Excess of revenues over (under) expenditures	-	(5,002)	18,445	23,447
Fund balance, beginning of year	161,268	161,268	161,268	-
Fund balance, end of year	<u>\$161,268</u>	<u>\$156,266</u>	<u>\$179,713</u>	<u>\$23,447</u>

See accompanying notes to financial statements



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

Board of Directors  
Shepherd Tri-Township Fire Department

We have audited the accompanying financial statements of each major fund of Shepherd Tri-Township Fire Department (the Department) as of and for the year ended November 30, 2006, which collectively comprise the Department's financial statements and have issued our report thereon dated January 31, 2007. The report on these financial statements was qualified because it is the Department's policy to report their financial statements using the minimum accounting practices prescribed by the Michigan Department of Treasury. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

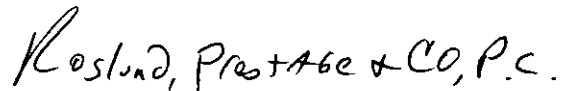
In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of the Department, in a separate letter dated January 31, 2007.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 31, 2007





## Management Letter

Members of the Board  
Shepherd Tri-Township Fire Department  
Shepherd, Michigan

In planning and performing our audit of the financial statements of the Shepherd Tri-Township Fire Department for the fiscal year ended November 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated January 31, 2007, on the financial statements of the Shepherd Tri-Township Fire Department.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 31, 2007

### **Organizational Structure**

The size of the Department's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board remain involved in the financial affairs of the Department to provide oversight and independent review functions, including the review of paid invoices, cancelled checks, and bank statements.

### **Evaluate Investment**

During the audit it was noted that the Department carries on their financial statements an investment which was donated to them many years ago. This investment is in a mutual fund which has been rated at below average for overall performance. We believe that the Department should review their holding in this investment and make a determination as to whether to 1) keep the funds invested in the current holding or 2) investigate other investment options and determine whether to redirect funds into holdings that may yield a higher return, within the parameters of Public Act 20 of 1943 (Investment of Surplus Funds of Political Subdivisions).

### **Rescission of MCGAA Statement No. 7**

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments sets forth the required financial reporting formats for local governments in accordance with generally accepted accounting principles. The Local Audit and Finance Division of the Michigan Department of Treasury is responsible for overseeing local unit compliance. Per the Michigan Committee on Governmental Accounting and Auditing (MCGAA) Statement No. 7, issued by the State Treasurer, omission of the Management's Discussion and Analysis, the Government-Wide Statements and/or Infrastructure Reporting will not result in any sanctions or remediation. As such, the Department currently elects to omit these sections of the GASB 34 reporting format. However, on November 16, 2006, the MCGAA rescinded Statement No. 7 effective for fiscal years beginning after December 15, 2006. Therefore, for the fiscal year-end November 30, 2008, the Department will be required to include the Basic Financial Statements and the Management's Discussion and Analysis as part of their financial statements. We recommend that the Department take a proactive approach to this issue and begin the task of establishing a detailed listing of fixed assets owned by the Department, as well as become familiar with the requirements needed for a Management's Discussion and Analysis.